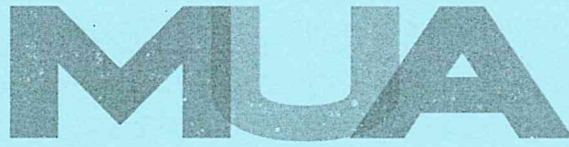


The
Management
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UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF BACHELOR OF COMMERCE

BCM 412: PRINCIPLES OF TAXATION

DATE: 25TH JULY 2017

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. Write all your answers in the Examination answer booklet provided.

QUESTION ONE

- a) List any four principles of a good tax system. (5 marks)
- b) Rai, Sai and Tai are former school mates who were doing business together. The business is not registered but they registered themselves as equals in it. They keep proper books of account and have been able to provide the following profit and loss account for the year ended 31 December 2005.

Profit and Loss Account for year ended 31 December 2005

	Sh.		Sh.
Establishment expenses	800,000	Gross profit	1,908,000
Rent of business premises		Sundry receipts	80,000
owned by all of them jointly	180,000	Interest Income	72,000
Interest expense	80,000	Profit on sale of shares	200,000
Stationery and printing	120,000	Gross income from farming	340,000
Light and heating	40,000	Lottery winnings	800,000
General farm expenses	294,000	Dividend (Gross)	120,000
Repair of premises	40,000		
Depreciation	300,000		
Interest on partner's capital:			
Rai	80,000		
Tai	120,000		
Salary to Sai	160,000		
Commission to partners:			
Rai	96,000		
Sai	96,000		
Tai	96,000		
Bad debts	240,000		
Gifts, present and charity	40,000		
Donation to child welfare	200,000		
Interest on loan taken to pay			
Income tax	20,000		
Legal charges	120,000		
Net profit	<u>398,000</u>		
	<u>3,520,000</u>		<u>3,520,000</u>

Additional information:

1. Capital allowances have been agreed as follows: Wear and Tear allowances sh.180,000; Farm works deductions sh.120,000.
2. The partners had borrowed Sh.400,000 with a hope of investing it on fixed securities to earn more income interest rates nevertheless declined. Interest expense of Sh.80,000 and interest income of Sh.72,000 relate to the loan.
3. Legal charges include Sh.40,000 paid to finish a case in the customs department.
4. In 2005, the partners brought forward losses amounting to Sh.800,000 from this business.

Required:

- (a) Compute taxable income derived from the partnership (16 marks)
- (b) Show allocation among partners. (4 marks)

QUESTION TWO

- (a) Explain the role and functions of a Value Added Tax tribunal. (4 marks)
- (b) The following purchases and sales were made by Pepo Limited (VAT No. !00012Y) during the first two weeks of January 2006. Prices shown are inclusive of VAT at the standard rate of 16 percent.

		PURCHASES		SALES	
		Unit	Price per Unit Sh.	Unit	Price per Unit Sh.
January	1	100	1,400	10	1,800
	2			20	1,800
	5			50	1,800
	7	75	1,600		
	10			20	1,800
	12	-		50	2,000
		<u>175</u>		<u>150</u>	

There were no opening stocks at the beginning of the month.

The physical inventory confirmed that there were 25 units in stock as at 31 January 2006.

Required:

- (i) The VAT account for Pepo Limited. (8 marks)
- (ii) What are the requirements with respect to any sales made by Pepo Limited? (3marks)

QUESTION THREE

- (a) It is common in Kenya to have individuals who cannot distinguish between taxes and charges. Explain the difference between a tax and National social Security Fund deductions. (6 marks)
- (b) Specify the basic rules in Income Tax with regards to payment of pension from a registered scheme to:
- (i) The pensioner, (5marks)
 - (ii) The widow or widower of a pensioner. (4 marks)

QUESTION FOUR

Write explanatory notes on the taxes listed below and in each case indicate whether the tax complies with the main principles of a good tax system.

- (a) Presumptive tax on agricultural produce. (5 marks)
- (b) Trade licence chargeable to professionals. (5 marks)
- (c) Stamp duties on transfer of properties. (5 marks)

QUESTION FIVE

- a) What is meant by the term "Resident" in relation to corporate body? (5 marks)
- b) What is capital deduction/allowance? Briefly explain the types of capital allowance as provided by the income Tax Act. (10 marks)

QUESTION SIX

- (a) What is 'set-off' tax? (2 marks)
- (b) Mrs. Ongera works with Anga Ltd. and has provided you with the following information for the year ended 31 December 2013.
1. Pension from previous employment Sh.20, 000 per month.
 2. Salary sh.120, 000 per month (P.A.Y.E Sh.42, 000 per month)
 3. Mrs. Ongera and her husband own a company whose taxable income was agreed at Sh.500, 000 after charging husband's salary of Sh.250, 000 per month (P.A.Y.E Sh.60, 000per month).

4. Anga Ltd. provided a company house to Mrs. Ongera in South B where rent of similar houses was Sh.20, 000 per month.
5. Mrs. Ongera works over-time and her over-time income averages Sh.10, 000 per month.
6. Mrs. Ongera enjoyed medical benefit of Sh.160, 000 during the year. She is a senior manager and the company has medical cover for all its employees.
7. She obtained free consumables from the company as a Christmas gift worth Sh.30, 000 during the year.
8. Mrs. Ongera owns rental property at Komarock Estate and receives Sh.50, 000 as rental income per month. During the year, she incurred Sh.60, 000 in renovations, repairs and painting before letting the property. She had obtained a mortgage loan from Housing Finance Company amounting to Sh 3,000,000. She paid Sh 900,000 during the year of which Sh 500,000 was principal.
9. Mrs. Ongera owns 20% of the shares of Anga Ltd.

Required:

The taxable income for Mr and Mrs Ongera for the year of income 2013 (13 marks)

RATES OF TAX (Including wife's employment, self employment and professional income rates of tax).
YEAR OF INCOME 2005.

Taxable Employment Benefits - Year 2005

Monthly taxable pay (shillings)			Annual taxable pay (shillings)			Rates of tax % in each shilling	
1	-	10,164	1	-	121,968	10%	
10,165	-	19,740	121,969	-	236,880	15%	
19,741	-	29,316	236,881	-	351,792	20%	
29,317	-	38,892	351,793	-	466,704	25%	
Excess over	-	38,892	Excess over	-	466,704	30%	

Personal relief Shs. 1,162 per month (Shs. 13,944 per annum)

Prescribed benefit rates of motor vehicles provided by employer

				Monthly rates (Sh.)	Annual rates (Sh.)
Capital allowances:		(i)	Saloon, Hatch Backs and Estates		
Wear and tear allowances			Upto - 1200 cc	3,600	43,200
Class I	37.5%		1201 - 1500 cc	4,200	50,400
Class II	30%		1501 - 1750 cc	5,800	69,600
Class III	25%		1751 - 2000 cc	7,200	86,400
Class IV	12.5%		2001 - 3000 cc	8,600	103,200
Industrial building allowance:			Over - 3000 cc	14,400	172,800
Industrial buildings	2.5%	(ii)	Pick-ups, Panel Van (Unconverted)		
Hotels	4.0%				
Farm works allowance	33.3%		Upto 1750 cc	3,600	43,200
Investment deduction allowance:			Over 1750 cc	4,200	50,400
2003	- 70%	(iii)	Land Rovers/Cruisers	7,200	86,400
2004	- 100%		OR 2% of the initial capital cost of the vehicle for each month, whichever is higher.		
2005	- 100%				
Shipping investment deduction 40%					
Mining allowance:					
Year 1	40%				
Year 2 - 7	10%				

Commissioner's prescribed benefit rates

Services		Monthly rates Sh.	Annual rates Sh.
(i)	Electricity (Communal or from a generator)	1,500	18,000
(ii)	Water (Communal or from a borehole)	500	6,000
(iii)	Provision of furniture (1% of cost to employer) If hired, the cost of hire should be brought to charge		
(iv)	Telephone (Landline and mobile phones)	30% of bills	
Agricultural employees: Reduced rates of benefits			
(i)	Water	200	2,400
(ii)	Electricity	900	10,800

Low interest rate employment benefit:

The benefit is the difference between the interest charged by the employer and the prescribed rate of interest.

Other benefits:

Other benefits, for example servants, security, staff meals etc are taxable at the higher of fair market value and actual cost to employer.

The current VAT rate is 16%

